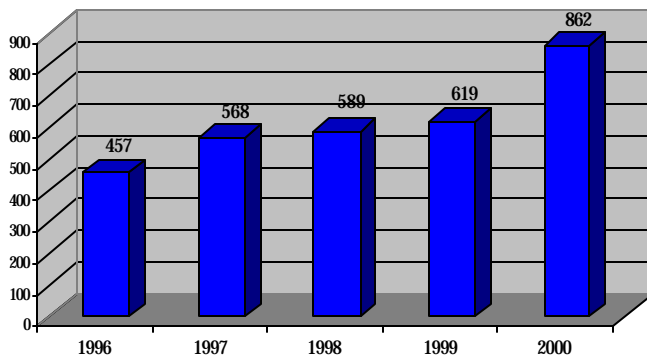


Utility Issues

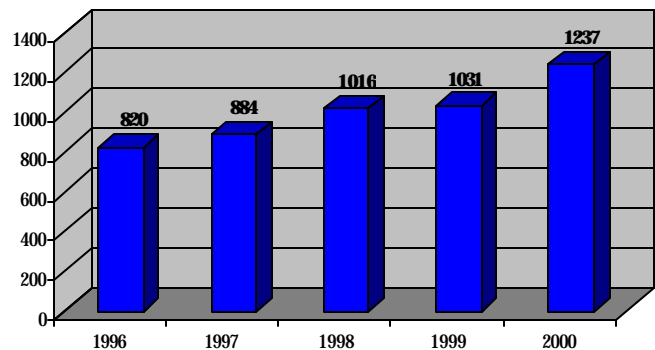
Change continues to occur in utility industries, and with that change, the workload of the Missouri Public Service Commission continues to grow as the PSC evaluates and implements competition. It was a record setting year for case and filing statistics during the 2000 fiscal year (see charts).

New state and federal legislation as well as federal agency activity and the changing regulatory environment have required, and will continue to require, a large commitment of resources in order for the PSC to stay current on developments and to influence state and national policy to the benefit of Missouri ratepayers.

PSC Cases Per Year



Tariff Filings Per Year



Telecommunications Metropolitan Calling Area (MCA) Plan

In order to further develop telecommunications competition and give Missouri consumers more options and choices for service, the PSC issued a decision which allows competitive local telephone company providers to offer their customers Metropolitan Calling Area (MCA) service in the metropolitan areas of Kansas City, St. Louis and Springfield.

Ordered by the PSC in 1992, MCA is still in the public interest. Evidence in this case indicated that Missouri telephone customers in the three major metropolitan areas of Missouri want MCA service and find it a valuable feature.

The MCA plan divides a metropolitan area into several tiers of exchanges. Customers located within the central zone and initial tier(s) are automatically provided the MCA service as it is part of their basic local telephone service. In the outer tiers, MCA is an optional service. In the outer tiers, customers have the option of subscribing to

MCA service for an additional flat monthly charge. That flat monthly charge is in lieu of toll charges for that call.

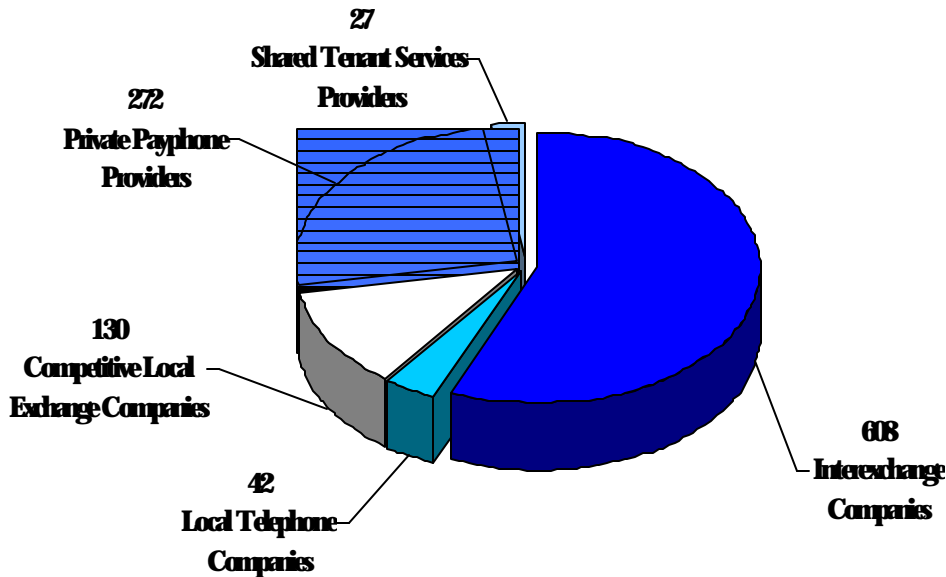
As part of its decision, the PSC gave providers of MCA pricing flexibility. Current MCA rates are the maximum carriers may charge for the service, but carriers may also price the service below the current maximum.

In addition, the PSC has authorized competitive local telephone companies to offer expanded calling plans beyond the MCA footprint. However, those plans must be called something other than MCA.

Basic Local Competition

Currently, 64 companies are authorized to provide basic local telephone service in competition with incumbent local exchange telecommunications companies in Missouri. Each competing local exchange telecommunications company (CLEC) has been granted a certificate of service authority to provide basic local exchange service, has an approved interconnection agreement, and has filed tariffs approved by the PSC which describe the services

Certified Telecommunications Providers



and rates that they are providing to customers.

These CLECs serve approximately 154,231 access lines in Missouri, representing 4% of the total number of access lines in the state. They primarily provide service in the local exchange territories of Southwestern Bell Telephone Company, GTE Midwest, Inc. (d/b/a Verizon) and Sprint.

Southwestern Bell's Application to Provide InterLATA Toll Service

The PSC is currently evaluating Southwestern Bell Telephone Company's application for authority to provide nationwide long distance service.

Pursuant to the Telecommunications Act of 1996, prior to being granted authority to provide long distance service, Southwestern Bell Telephone Company must first demonstrate that its local telephone markets are fully and irreversibly open to competition. As part of the approval process, Southwestern Bell is required to adhere to a congressionally mandated 14-point checklist designed to open local telephone markets to competition. On-the-record hearing presentations will be conducted this fall. During these sessions, the PSC will evalu-

ate Southwestern Bell's compliance with the checklist. Based on these proceedings, the PSC will make a recommendation to the Federal Communications Commission (FCC) on whether to deny or approve Southwestern Bell's application.

Pursuant to federal requirements, the FCC will consider evaluations by the Missouri PSC and the Department of Justice in making a final determination to grant or deny Southwestern Bell's application. If granted, Missouri will join New York and Texas as states in which a Bell Telephone Company is authorized to provide nationwide long distance service.

IntraLATA Dialing Parity

IntraLATA Toll Dialing Parity (ILDLP) allows a Local Exchange Carrier (LEC) customer to direct-dial a long distance number (1+ or 0+) by using a preferred toll provider without first dialing a carrier access code. ILDP had already been implemented in most local Missouri exchanges operated by Verizon, and Sprint Missouri (Sprint). Almost all remaining Missouri telephone exchanges received IntraLATA equal access on July 22, 1999. A few exchanges were delayed in receiving ILDP for various reasons. By November 30, 2000, all of Missouri should have ILDP.

All LECs followed IntraLATA Toll Dialing Parity (ILDLP) Implementation Plans approved by the PSC, in response to a Federal Communications Commission (FCC) Order (CC Docket No. 96-98 and NSD File No. 98-121). Missouri's earlier Primary Toll Carrier (PTC) Plan had required the routing of all Secondary Carrier (SC) IntraLATA traffic to one of four PTCs: Southwestern Bell Telephone Company (SWBT), Verizon, Sprint, and Fidelity Telephone Company (Fidelity). The old PTC Plan was discontinued to allow ILDP.

By the end of 2000, all ILECs in Missouri will be offering digital switching and one party service. Many telecommunications companies the PSC regulates, are presently offering various forms of advanced technologies, such as Advanced Intelligent Network (AIN) and Asymmetric Digital Subscriber Line (ADSL). A large percentage of Missouri's

may have previously received from the PTCs, including such services as:

- Message Telecommunications Services (MTS).
- Wide Area Telecommunications Services (WATS).
- Toll-free number (800/888) services.
- Extended-calling plans such as Extended Calling Area (ECA).



PSC Vice Chair M. Dianne Drainer reviews evidence filed in the area code case.

Area Code Issues in Eastern and Western Missouri

NeuStar, Inc., the North American Numbering Plan Administrator responsible for the day-to-day administration and management of area codes in the United States, petitioned the Missouri PSC to approve an overlay proposal to alleviate a projected exhaustion of available telephone prefixes in the 314 (St. Louis and surrounding areas) and 816 (Kansas City and surrounding areas) area codes.

Local public hearings were conducted by the PSC in the affected areas to receive customer comment on the various proposals filed in this case. The PSC also held formal evidentiary hearings in this matter and is expected to rule in this matter before the end of 2000.

There are several factors driving the need for new area codes. Those factors include: the way that numbering resources are currently utilized and managed such as the current industry-wide practice of issuing telephone numbers in blocks of 10,000; the introduction of new technologies such as wireless devices (cell phones and pagers); increasing demand for new services such as internet, data, fax machines and cell phones; and introduction of local telephone competition.

In the past year, the PSC has pursued a number of avenues with regards to telephone number conservation in hopes of extending the lifetime of area codes in Missouri. Rate center consolidation has been ordered in the St. Louis area. Under the plan, Southwestern Bell's rate centers were consolidated from 14 to 7. The PSC has petitioned for FCC authority to conduct number pooling trials in the 314 and 816 area codes. In addition, the PSC continues to move forward on reclaiming unused telephone numbers.

telephone customers are now interested in obtaining these technologies. Because of demand and difficulties in providing these technologies, the PSC's Telecommunications Department will increase its efforts in the coming year to assist customers and companies to arrive at goals that are mutually satisfying.

To compensate for abrupt changes in their revenue flows or to reimburse certain costs following the implementation of ILDP, some Missouri LECs have applied a temporary surcharge to their rates for long distance service. Revenues from these surcharges are subject to review and rates may be reduced after analysis by the PSC. Because of the implementation of ILDP, local exchange customers may now:

- Presubscribe to an Interexchange Carrier (IXC) to provide direct-dialed IntraLATA toll services.
- Still use dial-around toll service whenever desired.

Customers may also select from a variety of IXCs to provide new toll services to replace those that they

Number of Telecommunications Certificates Granted

Revision and Update of PSC Telecommunications Rules

The PSC has proposed the following revisions to its rules regarding telecommunications service:

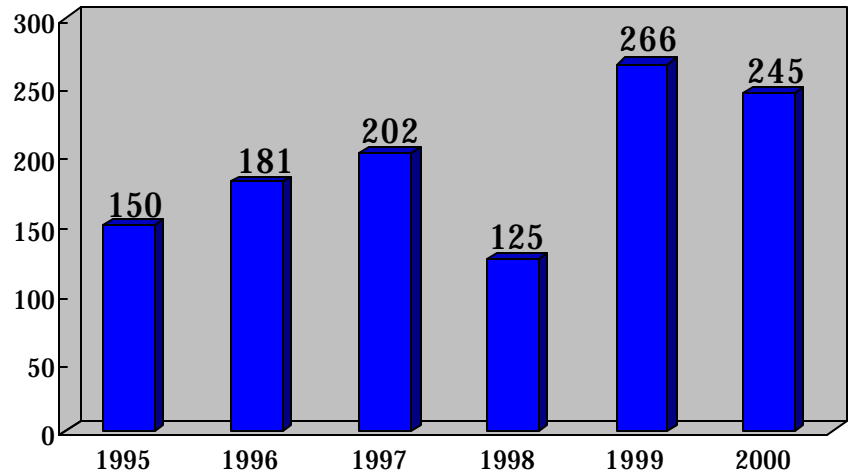
Chapter 33 – **Service and Billing Practices for Telecommunications Companies**

This rule contains revisions, effective April 30, 2000, to service and billing practices for telecommunications companies and includes such things as minimum charges, billing and payment standards for residential customers, deposits and guarantees, residential customer inquiries and disputes, discontinuance of service, payment discounts for schools and libraries, operator service standards, pay telephone standards and verification of orders for changing telecommunications service providers.

In the future, the following topics will be reviewed for new or revised rulemakings: liability requirements for unauthorized changes to a customer's telecommunications service provider (slamming); customer notification requirements for telecommunications service rate changes; and consumer awareness requirements for prepaid calling card services.

Consumer Outreach Programs

In May 2000, the PSC released the "Show-Me Rates" price comparison center web site <http://www.psc.state.mo.us/teleco/default.html>. Show-Me Rates is a work in progress that includes rates for local toll and in-state long distance calls and provides contact information for various competitive local telecommunications companies throughout the state. This free service was designed to provide residential and small business consumers with the information needed to make educated telecommunications choices.



Federal Telecommunications Activity

The Missouri PSC actively monitors telecommunications activity at the FCC. During the past year, the FCC has reviewed and/or acted upon major issues such as Federal Universal Service Support for non-rural telecommunications carriers, slamming, the Coalition for Affordable Local and Long distance Service (CALLS) access charge reform proposal, broadband deployment, number conservation issues and various topics for proposed legislation.

During the fiscal year, the Missouri PSC filed comments in various proceedings before the FCC. In November 1999, the PSC filed a petition with the FCC requesting additional delegated authority to implement number conservation measures such as thousands-block pooling trials, usage thresholds, reclaiming unused and reserved NXX codes, numbering allocation standards, sequential number assignment and code sharing. The FCC granted this additional authority in July 2000.

Sale of Various Verizon Exchanges

On July 31, 2000 Verizon finalized the sale of 107 telephone exchanges to Spectra Communications Group LLC (Spectra). The PSC approved the sale by an order that was effective on April 14, 2000. The sale affects more than 112,000 access lines in those exchanges.

According to Spectra officials, the company plans to make upgrades to the network. Over a period of time, exchange switches will be programmed to offer Custom Local Area Signaling Service (CLASS) and will have toll free access to the Internet. CLASS is the service that makes possible a number of options like call forwarding and caller identification. In addition to some new technology updates, Spectra intends to reopen some greeter offices in its serving areas. Spectra will retain Verizon's employees in the local areas where they presently work and therefore the customers in those exchanges will be able to continue to receive service from people they know.

Relay Missouri

The PSC, with cooperation from telephone service providers throughout the state, implemented 711 dialing to reach Relay Missouri. By dialing 711, Relay Missouri users will now be connected to a Relay Missouri communications assistant to place a call. The toll-free numbers will continue to work, however, for those who prefer to continue to use them.

Relay Missouri provides hearing and speech impaired citizens access to the telephone network.

The PSC no longer has any responsibility for the Adaptive Telephone Equipment Program (ATEP). Due to legislation in fiscal year 2000, that program has been transferred to the Missouri Assistive Technology Council.

Technical Services

The Technical Services Section has the responsibility of monitoring the quality of telephone service in Missouri. This year, the Engineering and Management Services Department, in cooperation with the Technical Services Section, audited 241 local telephone exchanges for quality of service. Those audits consisted of individual testing of 14,284 customer loops. Of the lines tested, approximately 7.8% needed some level of follow-up or repair.

At the present rate of auditing, Technical Services plans to be able to test nearly every wire center in the state every three years.

These cable pair or loop audits are part of an ongoing effort by this group to ensure Missouri customers receive good telephone service. Each year, Technical Services works on other types of audits. This year, audits included pay telephone audits, grounding/bonding audits and central office switching audits. In addition to audits, Technical Services maintains surveillance of ILECs and CLECs through reports submitted by those companies on a quarterly basis.

In the past year the Technical Services Section participated in a number of cases, providing testimony where PSC Staff's technical expertise was needed to clarify issues before the PSC. Technical Services also provides help in solving telephone customer complaints received by Consumer Services.



PSC employees Myron Couch (left) and Mick Johnson test a telephone line to ensure compliance with PSC service standards.

NATURAL GAS

Impact Of Higher Natural Gas Prices During Spring/Summer of 2000

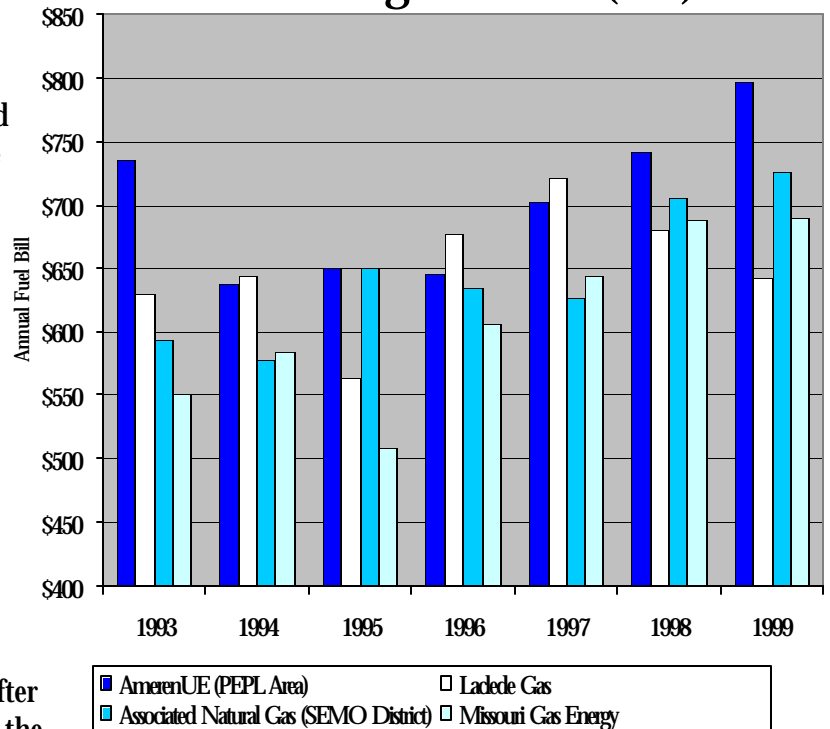
Due to dramatic and unexpected natural gas price increases which began to occur in the early summer period, the PSC Staff held a workshop on June 26, 2000 with all of the state's investor-owned natural gas Local Distribution Companies (LDCs). The workshop examined appropriate actions to address issues associated with the rapidly increasing costs of natural gas.

Under the PSC's new Purchased Gas Adjustment (PGA) procedure, natural gas rates may only be adjusted twice a year on a scheduled basis (summer and winter). An opportunity to adjust rates through an unscheduled filing in the winter period was built into the PGA procedure if specific conditions were met.

Given the unexpected rise in gas prices after the LDCs filed their summer PGA changes, the LDCs and regulators became concerned that significant under-collections would occur if the PGA factors were not allowed to change. At the workshop, parties discussed the problems and developed a mutually acceptable strategy to deal with the rising gas price issue. A plan was developed where:

1. All LDCs could file an unscheduled summer season PGA filing to become effective no later than August 1, 2000 and request a one-time waiver from their established PGA clause. The unscheduled filing was necessary to prevent a significant under-collection from occurring during the summer period. If not handled immediately, this under-collection would have added significant unrecovered gas costs to a winter filing which was estimated to be at record high levels.

Residential Natural Gas Heating Customer Annual Usage at 120Mcf(Dth)



2. The PSC would issue a general press release alerting the public to the rapidly increasing natural gas price situation stating some general reasons for the increases prior to any LDC filing for an adjustment. Public information alerted consumers to pricing problems in advance, preparing them for the possibility of substantial increases in gas costs once usage began to increase.

3. LDCs would make an extra effort to inform their consumers via bill imprints or bill stuffers; meet with the media; meet with consumer groups; or, use any other method they had available to them to inform consumers of the high gas cost situation.

4. The PSC would communicate the recent developments to state and local agencies which could be affected by rising gas rates and also advise elected officials of the situation.

United Cities' Change To Semi-Annual PGA Procedure

United Cities Gas Company became the last LDC to modify its PGA Clause to allow changes in wholesale gas costs only twice during the year, plus an optional unscheduled filing during the winter season. Prior to this change, LDCs adjusted their PGA factor as many as 12 times during the year. The current process of allowing fewer PGA filings began in October 1997. This process minimizes opportunities for billing errors and reduces consumer confusion regarding numerous natural gas price changes.

Atmos Merger/Purchase Of ANG Missouri Property

On April 20, 2000, the PSC approved an agreement which authorized Atmos Energy Corporation to purchase the assets of Arkansas Western Gas Company, d/b/a Associated Natural Gas Company (ANG) located in Missouri. Under the agreement, Atmos was authorized to acquire the Missouri assets and provide gas service in the areas previously served by ANG. The newly acquired service districts of Southeast Missouri, Kirksville and Butler include cities such as Kirksville, Butler, Caruthersville,

Doniphan and Sikeston. Atmos increased their customer base by approximately 48,000. Atmos further agreed to operate these service territories in accordance with the rules, regulations, rates and tariffs of ANG currently on file with and approved by the PSC effective June 1, 2000. As part of the agreement, parties established reasonable and appropriate customer service standards for Atmos customers.

Extension of Natural Gas Service in the Joplin Area

As communities grow and expand, natural gas service needs to be provided in the expanded area. The Industrial Development Authority of the City of Joplin requested Missouri Gas Energy (MGE) provide service to the Crossroads Center Distribution and Business Park (Crossroads). MGE and its predecessors have served Joplin and the surrounding area for many years. Crossroads is designed as a multi-use commercial development in MGE's presently certificated service area in Jasper County east of Joplin.

Because of the large potential demand at Crossroads when it is fully developed, providing natural gas service required construction of a new gas transmission line. This new line would connect Crossroads to a tap on a Williams Gas Pipelines Central, Inc. (Williams) pipeline, located approximately three and a half miles to the south, in Newton County. MGE plans to serve additional customers in that portion of Newton County off the new gas line subject to MGE's line extension policy in its tariff. Because of the value the Crossroads development has for the area economy, the City of Joplin paid the required customer contribution to MGE for the extension of service.

In order to provide service east of Joplin in its existing certificated area, MGE needed to "reinforce" its existing system in that area. To obtain the necessary gas, MGE decided to tap into the Williams pipeline in Newton County (south of the area). Additional customers will be served off of the 3 ½ mile distribution main.



David Sommerer (left) and Mike Wallis of the PSC Procurement Analysis Department examine natural gas service area maps for a pending case.

Natural Gas Roundtables

The PSC held one natural gas roundtable during the 2000 fiscal year. On September 17, 1999 a roundtable was held in Jefferson City titled ***Natural Gas Aggregation: To Combine Or Not Combine***. This meeting discussed ways in which small volume natural gas consumers could band together to pursue transportation options and reviewed the risks/benefits which these types of groupings pose.

Roundtable meetings are used as opportunities to discuss issues of mutual interest and concern and are used as an educational forum. At the conclusion of each meeting, a bound compendium is prepared for future reference. This summary report is also placed on the PSC website as general information for the public.

HVAC Exemption Filings

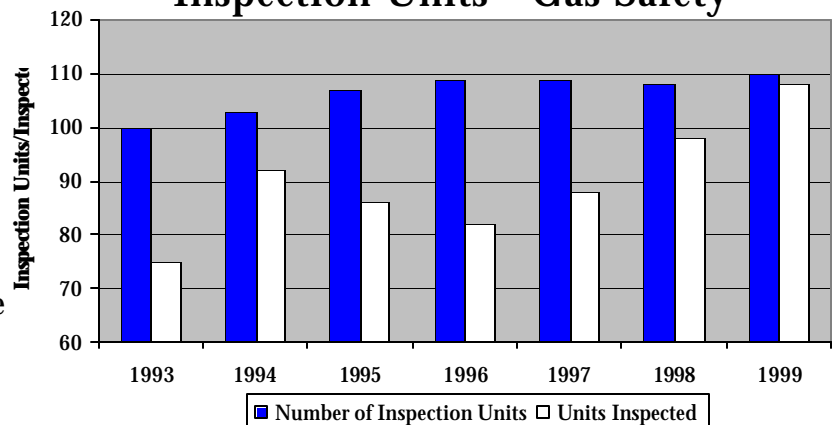
During 1998, the Missouri General Assembly enacted the Heating, Ventilation, and Air Conditioning Services (HVAC) Act. Under this Act, "a gas, electric or steam heating utility may not provide certain services related to heating, ventilating and air conditioning equipment (HVAC Services) unless it provides such services through an affiliate." Under a special subsection of the Act, a utility may continue to provide HVAC services through an exemption so long as the utility provided the same type of HVAC Services five years prior to August 28, 1998.

On March 2, 2000, the PSC Staff sent a letter to all investor-owned gas operators seeking information regarding the utilities' involvement in HVAC activities. All LDCs responded to this request and only three claimed to be exempt from the provisions of the Act. During this fiscal period, Laclede Gas Company filed and was granted an exemption in GE-2000-626. The exemption requests filed by Fidelity Natural Gas, Inc and MGE in Case Nos. GE-2000-826 and GE-2000-808 respectively, were still pending at the end of the fiscal period.

Underground Utility Damage Prevention Legislation

During the past fiscal year, the PSC worked with Missouri One-Call System (MOCS) personnel and others to gain support for improved damage prevention legislation. Legislation is needed which would establish a true one-call system, where with one call, all underground utilities in the area of a proposed excavation are notified. Currently there is not a reliable system available for persons making excavations to identify all underground facility owners in an excavation area. Natural Gas Operators are currently participating in the MOCS, and legislation would bring all other utilities with underground facilities into the same program. Universal participation in the MOCS will increase public safety by better protecting Missouri's underground infrastructure.

Missouri Jurisdictional Gas Utilities Inspection Units - Gas Safety



Source: MoPSC FERC pipeline safety budget material submitted to the U.S. Department of Transportation

Underground Damage Prevention Programs

In 1999, an unprecedented study of Damage Prevention Best Practices was conducted by more than 160 stakeholders representing multiple industries and interest groups across the country. The Federal Office of Pipeline Safety, the US Department of Transportation ("USDOT") sponsored this study. The purpose of the study was to identify and validate existing best practices performed in connec-

tion with underground facilities damage prevention; and to examine and evaluate for possible consideration and incorporation into state and private stakeholder underground facility damage prevention programs. In August 1999, USDOT published a report titled "Common Ground: Damage Prevention Best Practices Report". The report contained the key elements to successful damage prevention programs.

Currently, stakeholders in the state of Missouri are searching for ways to integrate these Best Practices into industry activities at the local level. Re-



Workers for AmerenUE install state-of-the-art plastic natural gas pipeline as part of a on-going replacement program. The new pipe is expected to eliminate corrosion problems underground.

fecting the national Common Ground Study, a group of Missouri stakeholders joined to form 'Missouri Common Ground' with the mission of identifying and promoting Best Practices for underground facility damage prevention for public safety and welfare.

The PSC's Gas Safety Staff facilitated a stake-

holder planning committee meeting to address the topic of underground damage prevention. A Steering Committee was formed and that group plans to hold a series of meetings and roundtables to educate

and alert the public.

The first Missouri Common Ground Roundtable meeting was held in March 2000. This meeting brought together facility designers, facility operators, excavators, regulators, property owners, one-call centers, and locators to explore ways to improve damage prevention in Missouri. These roundtables are designed to provide a forum to promote not only communication and education, but also to improve company policies, form guidelines, as well as to enhance Missouri's damage prevention statute.

Waivers From Certain Gas Safety Rules

On March 7, 2000, various members of the Missouri Association of Natural Gas Operators ("MANGO") filed an application for a permanent waiver from certain PSC gas safety rules. According to the existing provision, a person making an electro-fusion or mechanical joint is required to perform a complete assembly of each type of electro-fusion and mechanical joint during the initial qualification. For re-qualification, a person must participate in a review of the proper joining procedure each calendar year.

MANGO, in this filing, requested a permanent waiver, which would provide for an alternative means of ensuring qualification for people making joints. MANGO stated a person must be re-qualified each calendar year, but at intervals not exceeding 15 months. MANGO also indicated that the review would cover all steps leading up to the actual production of a joint. MANGO asserted that by not expending the fittings during the re-qualification, it would save money and time, without sacrificing safety.

On May 12, 2000, the PSC Staff filed its recommendation stating that Missouri natural gas operators as well as other states' operators have identified the need for scheduling flexibility of employees' plastic joining re-qualification. Staff referenced an April 26, 1999, State Industry Regulatory Review Committee to support this consensus. Staff stated the applicants' waiver request is consistent with gas pipeline safety, therefore, the PSC should grant the



Gas safety specialists John Kottwitz (left) and Greg Williams take a cathodic protection reading at a regulator station. The reading measures pipeline voltage potential, which is used to help mitigate corrosion.

waiver. PSC Staff also noted that the waiver must be approved by the United States Secretary of Transportation. On June 15, 2000, the PSC granted the waiver.

Federal Natural Gas Activities

Decisions by the FERC directly impact Missouri ratepayers since Missouri's LDCs must use FERC-regulated interstate pipelines for delivery of their natural gas supplies. The PSC believes its involvement in FERC and related judicial proceedings is necessary to ensure that Missouri natural gas consumers receive reliable service at reasonable rates.

While there are 10 interstate pipelines directly serving Missouri with an additional six or so upstream pipelines used by Missouri LDCs, the PSC actively participates in various rate and tariff proceedings of Mississippi River Transmission Corporation (MRT), Panhandle Eastern Pipe Line Company (Panhandle), and Williams Gas Pipelines-Central (Williams). These three pipelines provide service to a majority of the state's natural gas consumers. MRT serves the eastern side of the state, including St. Louis. Panhandle traverses the central part of the state while Williams serves western Missouri, including the Kansas City, St. Joseph, Springfield and Joplin areas.

Kansas Ad Valorem Tax Refunds

Since 1989, the PSC has been aggressively seeking refunds of Kansas ad valorem taxes unlawfully collected from consumers. During 1994-95, Missouri ratepayers received nearly all of the \$13 million in refunds owed for the 1989-93 time period. However, as of May 2000, only \$7.3 million of the estimated \$50-60 million in additional refunds (for 1983-88) have been received by Missouri consumers.

The PSC has submitted information to Congress and testified against legislative proposals, which would reduce producers' refund obligations.

Many producers petitioned FERC to waive some or all of their refund obligations. The PSC protested over 70 of these requests. In addition, the PSC continues to actively participate in all court appeals seeking review of FERC's ad valorem tax orders. On October 29, 1999, the U.S. Court of Appeals issued a very favorable decision (D.C. Cir. Case No. 98-1227), which upheld FERC's denial of producer requests for a generic waiver of the accrued interest on refunds. The decision also required additional amounts be paid by producers, relating to ad valorem reimbursements received by them after October 1983. However, the recovery of refunds from producers has been complicated by the Court's unfavorable December 9, 1999 decision, which upheld FERC's method of making several thousand working interest owners liable for their individual share of refunds and rejected the PSC's challenge to hold a consolidated number of "contract first sellers" liable for the refund obligations.

In October 1999, the PSC filed settlement offers in Williams and Panhandle refund dockets. These offers were designed to provide relief to small producers from their refund liability, and to reduce many of the administrative problems associated with FERC's refund collection procedures. As a result of settlement negotiations that have been taking place, the PSC, Williams, Missouri Gas Energy (MGE) and a large number of smaller working interest owners filed a settlement

on August 7, 2000, which supersedes the October 1999 Offer of Settlement. This proposal would eliminate the administrative burdens associated with pursuing 5% of the total refunds owed from over 300 small working interest owners and operators, and permit negotiations to focus on the remaining 35 producers, who owe 95% of the refunds. Parties await FERC action on these settlement offers.

The PSC will continue to take the necessary legal and regulatory actions to pursue the Kansas ad valorem tax refunds due Missouri consumers.

Mississippi River Transmission Corporation (MRT)

MRT, in its 1999 annual fuel use and loss rate filing, sought to recover from St. Louis and other eastern Missouri consumers approximately \$15 million of gas losses it incurred during the period November 1993 through June 1998. The PSC opposed the flow through of these out-of-period gas losses. On May 31, 2000, FERC agreed with the arguments presented by the PSC and directed MRT to exclude these amounts from the calculation of its fuel rates. MRT has requested rehearing of FERC's orders in this matter.

Kansas Pipeline Company (KPC)

A portion of the gas supply for Kansas City is transported over KPC. FERC allowed KPC to begin charging rates in May 1998, which were significantly higher than the PSC believed were reasonable. The PSC's appeal of these FERC orders is still pending.

In August 1999, KPC filed a new rate case (Docket No. RP99-485) seeking to maintain or slightly increase the initial rates FERC had approved in May 1998. The PSC used six of its staff to present expert testimony in this case. Despite efforts to negotiate a settlement in this matter, the case went to hearing in September 2000.

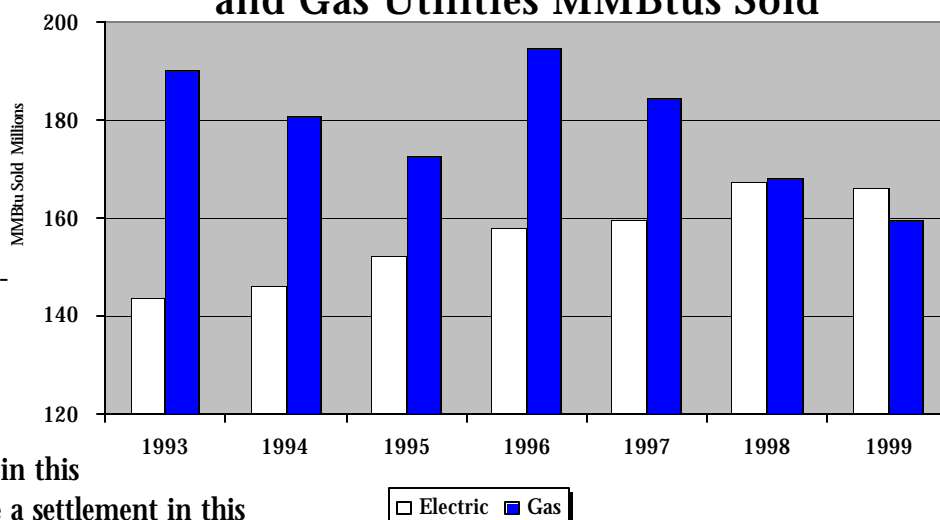
Ozark Gas Transmission (Ozark)

A portion of southeast Missouri's gas supplies are transported over Ozark. In April 2000, Ozark filed to increase its rates by 50%. The PSC protested various aspects of this filing and requested FERC set this matter for a formal hearing. However, FERC directed its staff to establish a technical/settlement conference procedure and report the results by September 28, 2000. The Missouri and Arkansas Commissions have actively participated in FERC's informal proceedings and have tentatively agreed to a settlement with the pipeline, which would result in a rate decrease for Missouri customers.

FERC's Order No. 637

In February 2000, FERC issued Order No. 637 amending its regulations, policies and procedures to improve the competitiveness and efficiency of natural gas transportation markets. FERC directed pipelines to make changes to their tariffs implementing the capacity release, right-of-first-refusal, penalty, and other aspects of the Order's provisions. The PSC has intervened in and is tracking the activities in the various pipeline compliance dockets.

Missouri Jurisdictional Electric and Gas Utilities MMBtus Sold



Electric

Missouri Electric Rates

Through the efforts of Missouri's electric utilities and the PSC, all classes of Missouri customers have benefited from low electric rates. The United States Energy Administration, a non-partisan office in the federal Department of Energy, annually ranks the states according to their average rates in cents per kilowatt-hour. For 1999, Missouri's electric rates for residential, commercial and industrial customers were better than the national average (see tables).

Restructuring

The debate on electric restructuring is continuing at both the national and state level. A number of states are restructuring and have implemented plans which allow customers to choose their suppliers of electricity.

The PSC actively participates in the electric restructuring debate at both the federal and state level. In Missouri, the Joint Interim Committee on Telecommunications and Energy continues to meet to discuss electric restructuring. Commissioners and the PSC Staff are active participants in these meetings and in providing information to the Committee. Any decision to implement restructuring in Missouri would require changes in current Missouri law.

At the national level, the PSC works with NARUC to actively monitor federal legislation and provide testimony at hearings. The NARUC Electricity Committee as well as the NARUC Subcommittee on Strategic Issues directs the NARUC Staff on positions to take or assigns Commissioners to testify on NARUC's position.

Federal Electric Activities

This past year, the major activity at FERC with respect to electricity has been Order No. 2000, in which FERC has required all utilities under its jurisdiction to join a Regional Transmission Organization (RTO) by October 15, 2000 or file an explanation of why it was not possible to do so. Independent System Operators (ISOs), which have previously been approved by FERC, have until January 2001 to file for RTO status. FERC held regional

RESIDENTIAL

State Name	Avg Revenue (cents/kWh)	State Rank
New Hampshire	13.92	1
Hawaii	13.82	2
New York	13.66	3
California	10.60	10
Illinois	9.85	13
Iowa	8.38	20
U.S. Avg.	8.26	
Kansas	7.65	25
Arkansas	7.51	27
Missouri	7.08	34
Oklahoma	6.57	41
Nebraska	6.46	44
Kentucky	5.61	49
Idaho	5.28	50
Washington	5.03	51

COMMERCIAL

State Name	Avg Revenue (cents/kWh)	State Rank
Hawaii	12.31	1
New Hampshire	11.64	2
New York	11.63	3
California	9.66	8
Illinois	7.77	15
U.S. Avg.	7.41	
Iowa	6.67	22
Kansas	6.34	31
Missouri	5.99	37
Arkansas	5.90	38
Oklahoma	5.66	43
Nebraska	5.45	46
Oregon	5.00	49
Washington	4.81	50
Idaho	4.34	51

INDUSTRIAL

State Name	Avg Revenue (cents/kWh)	State Rank
New Hampshire	9.42	1
Hawaii	9.41	2
Massachusetts	8.18	3
California	6.59	10
Illinois	5.11	13
U.S. Avg.	4.48	
Kansas	4.46	21
Missouri	4.43	24
Arkansas	4.16	32
Iowa	3.99	35
Oklahoma	3.65	43
Nebraska	3.60	44
Kentucky	2.91	49
Idaho	2.77	50
Washington	2.64	51

RTO conferences in the spring of 2000. The Missouri PSC participated and gave presentations at two of these regional conferences (Kansas City and Cincinnati).

Investor-owned utilities in Missouri are currently associated with three regional transmission entities. AmerenUE is a member of the Midwest ISO, which includes transmission systems in Wisconsin, Illinois, Indiana, Ohio, Pennsylvania, Virginia and Kentucky. The Midwest ISO plans to be in operation by the summer of 2001, and is in the process of upgrading its tariffs and procedures to meet the requirements of Order 2000. Major changes involve the structure of real-time power markets and a detailed system to manage transmission congestion. The Missouri PSC has actively participated in this process with other state commissions through the Midwest ISO's Policy Committee and its subcommittees.

Empire District Electric Company, Missouri Public Service Company and Kansas City Power and Light Company are members of the Southwest Power Pool (SPP) – a regional reliability council and regional transmission provider that covers an area south and west of Missouri (Kansas, Oklahoma, Arkansas, Louisiana, Mississippi and Texas). Late in 1999, the SPP filed for approval by FERC as an ISO. In May 2000, FERC rejected the SPP filing, and instead placed the SPP as a regional transmission entity to meet the Order 2000 requirements for an RTO. The SPP initiated an RTO Working Group to develop the tariffs and procedures to meet the requirements of Order 2000 and the PSC has actively participated in that process.

St. Joseph Light & Power Company is a member of the Mid-Continent Area Power Pool (MAPP) – a regional reliability council that covers an area north and west of Missouri (Nebraska, Iowa, South Dakota, North Dakota, Minnesota and western Wisconsin). MAPP members decided not to form a separate RTO, and instead member transmission owners could join the Midwest ISO. In addition, as an electric reliability council, MAPP entered into a memorandum of understanding to merge with the Mid-America Interconnected Network (MAIN) – an electric reliability council to the north and east of

Missouri (Illinois and eastern Wisconsin).

Price Spikes

Again, during the summer of 1999, Midwest electric utilities experienced sharp price increases in wholesale electric power. Missouri electric companies under PSC jurisdiction do not have a procedure to pass higher costs on to their customers absent the filing of a general rate case. The PSC Staff continues to be very active in monitoring the electric supply in Missouri during the hot summer months when electric supplies are strained.

A number of generation facilities are under construction in the Midwest and will be in commercial operation by the summer of 2001. A few units became operational in the summer of 2000.



Tom Lin, PSC Electric Department, monitors open market electric price activity.

Merger Activities

On October 19, 1999, UtiliCorp United Inc. (UtiliCorp) and St. Joseph Light & Power Company (SJLP) filed a joint application seeking authority to merge SJLP into UtiliCorp. According to the application, the merger is expected to result in significant synergies from generation, economies of scale and efficiencies realized from the elimination of duplicate corporate and administrative services. The



PSC Electric Department Manager, Bill Washburn, testifies in a hearing before the Commission.

value of the transaction is approximately \$270 million. The application states that following the merger, UtiliCorp will operate SJLP as a separate and distinct Missouri retail energy distribution unit using SJLP's current rates, rules, regulations and tariffs on file with the PSC. Hearings were held in July 2000, and an order is expected before the end of the year.

On December 15, 1999, UtiliCorp and The Empire District Electric Company (Empire) filed a joint application with the PSC to merge Empire into UtiliCorp. The merger transaction is valued at approximately \$800 million according to the application.

UtiliCorp and Empire expect that the merger will result in significant synergies from generation, economies of scale, and efficiencies realized from the elimination of duplicate corporate and administrative services. Following the closing of the merger, UtiliCorp will continue Empire's operations as a separate and distinct unit with the same rates, rules, regulations and other tariff provisions that Empire currently has on file and approved by the PSC.

Rate Reduction: St. Joseph Light & Power Company and AmerenUE

The PSC ordered St. Joseph Light & Power Company (SJLP) to implement a rate decrease of approximately \$2.5 million. This order was the result of an earnings audit conducted by the PSC

Staff and an agreement between SJLP, the PSC Staff, the Office of the Public Counsel and intervening parties. SJLP's electric rates dropped by approximately \$2.5 million or 1.53% for a typical residential customer.

As a result of a steam rate case, SJLP's steam service rates decreased by \$25,000.

AmerenUE's Rates

The electric rates for AmerenUE were reduced by approximately \$16 million to reflect, on an ongoing basis, increased earnings that have been shared each year with its customers through bill credits under an Experimental Alternative Regulation Plan that ended on June 30, 1998.

AmerenUE's electric rate decrease applied primarily to large class customers.

Electric Tariff Filings

During the fiscal year, the PSC received 33 electric tariff filings, which included the following:

Internet Billing

AmerenUE has applied for approval of an Internet billing program. If approved, the program would eliminate postcard billing for qualified customers choosing the option of receiving and paying their electric and gas bills via the internet. Current PSC rules require that utility bills be mailed or hand delivered.

Voluntary Load Reduction

AmerenUE initiated a Voluntary Curtailment Rider on June 1, 1999. This rider provides bill credits to customers for curtailing electrical usage during specified periods at the request of the utility. Customers are credited for each actual load reduction, unlike interruptible rates, which credit customers the same amount each month whether or not curtailments are called and no matter how many curtailments are called. Voluntary Load Reduction Riders have now been approved for Kansas City Power & Light Company, Missouri Public Service and St. Joseph Light & Power Company.

KCPL Restructuring Plan

On May 15, 2000, Kansas City Power & Light Company (KCPL) filed an application with the PSC seeking authority to restructure the Company to create a holding company, a competitive generation company, a regulated utility company and an unregulated subsidiary. According to the application, KCPL proposes to separate its generation assets from its transmission, distribution, and customer service assets by creating separate affiliated companies owned by a common holding company. The holding company would be separated into three companies, a distribution and transmission company (KCPL Delivery) and a generation company (KCPL Power).

Following the completion of the restructuring transaction, KCPL Delivery would operate as a regulated electrical corporation under the jurisdiction of the PSC and would provide electric transmission and distribution service to its existing customers. KCPL Power would supply KCPL Delivery with power and energy pursuant to a Power Supply Agreement.

With the many complex issues to be resolved in the application, KCPL proposed that the case be divided into four phases, defined by four filings to be made over a period of approximately one year starting in late 2000.

Territorial Agreements and Change of Electric Supplier

On April 7, 2000, AmerenUE and Lewis County Rural Electric Cooperative filed a joint application with the PSC seeking approval of a territorial agreement. The proposed territorial agreement designates the boundaries of each electric supplier within portions of the Missouri counties of Lewis, Clark, Shelby, Knox, Adair, Schuyler, Scotland and Marion. The agreement does not transfer any customers or facilities, but designates exclusive service areas for each utility and will prevent future duplication

of facilities. An order is expected later in the year.

On May 24, 2000 AmerenUE and Intercounty Electric Cooperative Association filed a joint application asking the PSC to approve a territorial agreement. The proposed territorial agreement designates the service area for new structures in portions of Maries, Phelps and Gasconade counties in Missouri. The agreement is designed to avoid duplication of facilities and minimize disputes between the two suppliers. The agreement designates the boundaries of the exclusive electric service area for service of new structures within the designated areas. The territorial agreement does not require the transfer of any facilities or customers. On June 23, 2000, the PSC issued an Order Adopting Procedural Schedule. That order provided that a hearing would be held on August 15.

Affiliated Transactions

As the electric industry anticipates possible restructuring, Missouri electric utilities are beginning to offer more non-regulated services. The provision of these non-regulated services opens a potential for ratepayers to subsidize or underwrite these non-regulated services.

After much discussion and public hearings, the PSC's affiliate transaction rule became effective February 29, 2000. The rule requires electric



PSC Electric Department employees conduct periodic safety inspections of various plant facilities in the state.

utilities to keep records in a manner that will allow the PSC to determine if ratepayers subsidize the non-regulated business activities of utilities.

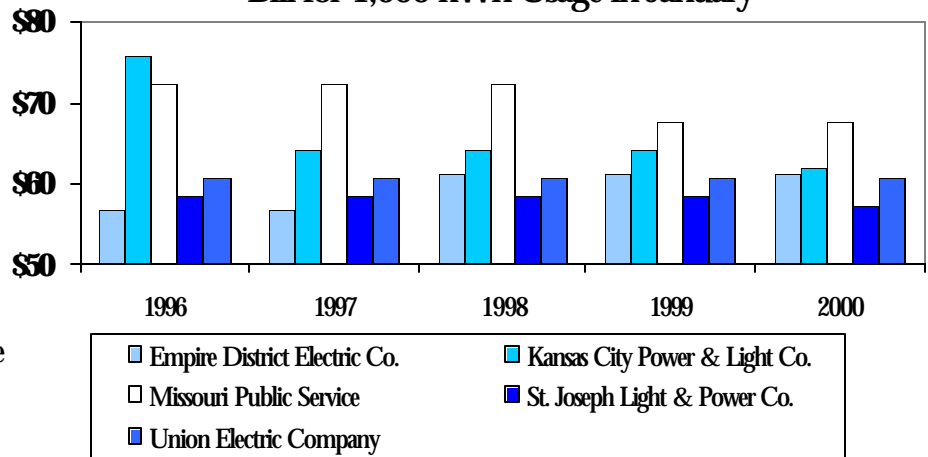
Safety Seminars

The PSC Staff continues to hold semi-annual electric safety meetings to provide training and to exchange information involving worker safety and public safety. Safety managers from investor-owned, cooperatives and municipal electric utilities in the state meet to discuss ways to heighten awareness of the hazards associated with the delivery and use of electricity. In addition, these meetings are used to develop strategies to communicate this message to the citizens of Missouri.

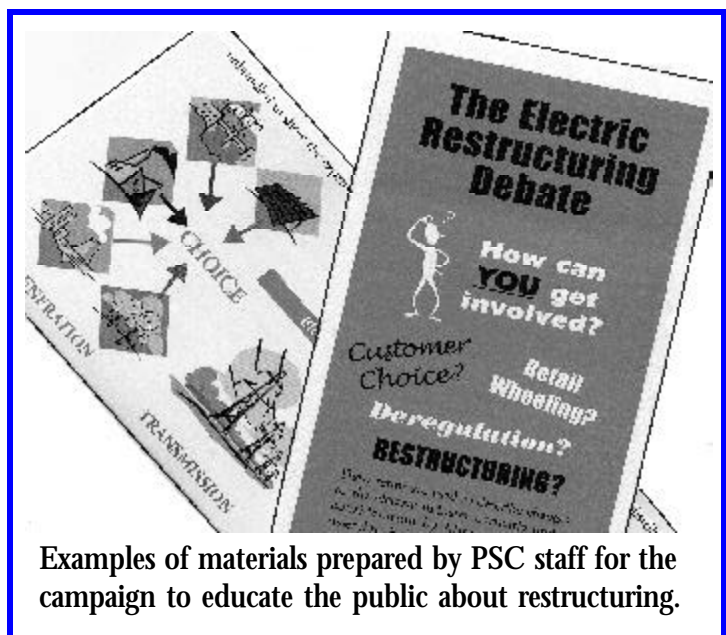
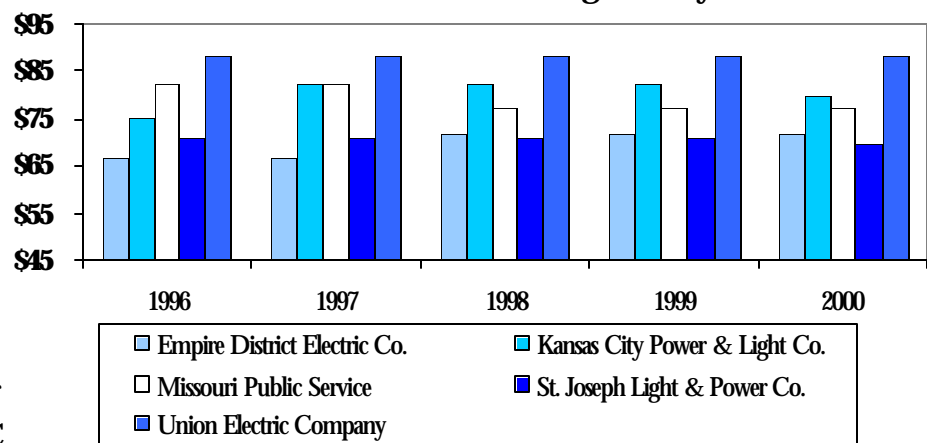
Public Education

With electric restructuring now affecting more than 60 percent of the nation, the General Assembly created a position at the PSC for educating electricity consumers about the consideration of similar laws for Missouri. The PSC launched its electric restructuring customer education and information campaign at the Missouri State Fair in Sedalia in August. The campaign is designed to raise public awareness and encourage citizens to voice their opinions on the issue. PSC employees spent 11 days at the fair distributing educational materials to the public, answering questions about restructuring and encouraging consumers to fill out an electric restructuring survey. The PSC has been receiving a steady return of customer surveys the results of which will be forwarded to the Missouri General Assembly for consideration as they debate the electric restructuring issue in the future.

Residential Electric Customer
Bill for 1,000 kWh Usage in January



Residential Electric Customer
Bill for 1,000 kWh Usage in July



Examples of materials prepared by PSC staff for the campaign to educate the public about restructuring.

Water & Sewer Department

Department Personnel

The Water & Sewer Department consists of seven professional/technical positions and is split into two sections, Rates and Engineering. Although the Department is split into the Rates and Engineering Sections, staff members work closely together as a team.

As with most departments within the PSC's organizational structure, the Department's management personnel carry out not only their administrative duties, but are also involved in a great deal of the technical and analytical case work that falls within the scope of the Department's responsibilities. As a group, the Department's staff members have 115 years of regulatory and/or water and sewer utility work experience, with much of that experience having been gained by their work in the Department.

Department Responsibilities

By law, the PSC is responsible for regulating the rates charged by and the operating practices of the privately owned water and sewer corporations that operate in Missouri. The Water & Sewer Department helps the PSC fulfill its responsibilities by providing technical expertise on matters relating to water and sewer system operations and the tariffed rates, charges and services of regulated water and sewer companies.

The general objectives of the Department are twofold. The first objective is to ensure regulated water and sewer companies provide safe and adequate service to their customers at rates that are deemed just and reasonable. The second objective is to ensure companies provide service according to applicable rules and procedures and the provisions of their PSC approved tariffs. Specific aspects of the Department's work include:

- *Reviewing and evaluating existing tariffs and tariff filings to determine whether their provisions comply with applicable PSC rules, policies and state laws;



Water & Sewer Department Assistant Manager, Jim Merciel, evaluates the performance data in the control room of a Missouri water treatment plant.

- *Participating in all formal and informal rate filings from the perspective of evaluating the appropriateness and design of proposed rates and charges, the adequacy of system operations and the appropriateness of and/or need for system plant additions that have been or will be placed in service;

- *Participating in the review of all applications for new/expanded certificated service areas from the perspective of evaluating the reasonableness and design of proposed rates and charges, proposed system design, plans for system operations and overall project feasibility;

- *Participating in the review of financing applications to determine the appropriateness of and/or need for projects being financed, as necessary;

- *Conducting regularly scheduled field inspections to determine whether company facilities and overall system operations comply with applicable PSC rules, company tariff provisions and proper operational procedures.

- *Interacting with company owners/operators regarding operational and technical matters;

*Investigating customer complaints and responding to customer inquiries concerning matters related to rates, charges, system operations and quality of service; and

*Providing expert testimony before the PSC on water and sewer cases pending before it, and providing technical advice to the PSC in its rulemaking actions on water and sewer matters.

Interaction With The Department Of Natural Resources

Of the utilities regulated by the PSC, water and sewer utilities are unique in that another state agency, the Department of Natural Resources (DNR), also has significant jurisdiction over them. Specifically, DNR's jurisdiction covers the area of the water and sewer utilities' compliance with applicable federal and state environmental and water quality laws and regulations.

While the PSC's rules provide for general oversight regarding water quality and sewage treatment standards, the PSC relies upon DNR to determine whether companies are complying with the applicable federal and state environmental and water quality laws and regulations.

Because of the overlapping jurisdiction between the PSC and DNR, staffs of both agencies attempt to work cooperatively in achieving the agencies' respective missions. For some time, the two agencies have shared information regarding companies for which the agencies share regulatory responsibilities. However, PSC Chair Sheila Lumpe and DNR Director Steve Mahfood have recently pressed for improvements in the agencies' cooperation and coordination on overlapping matters, such

as the DNR's issuance of construction and operating permits and the PSC's utility service area certification process. As a result, the staffs of DNR and the PSC are currently finalizing procedures that will streamline the application processes for new water system construction, permitting and certification and will better coordinate the agencies' respective review and approval processes for such systems.

PSC Regulated Water & Sewer Companies

The PSC currently has jurisdiction over 57 sewer companies and 71 water companies, which operate in various locations throughout the state. The tables set out on the following page show the distribution of the number of companies based upon the number of customers served, using the most recently available customer numbers. As is shown in these tables, the vast majority of the PSC's jurisdictional water and sewer utilities are very small, which presents unique situations with which the PSC and Department Staff must deal.



PSC Staff members inspect chlorine disinfection flow controllers at a Missouri water treatment facility

Regulated Sewer Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
1,000 & Up	2	2,541	23.3
500 - 999	3	2,038	8.7
200 - 499	8	2,536	23.3
100 - 199	17	2,606	23.9
Less Than 100	27	1,166	10.7
TOTALS	57	10,887	100.0



An alluvial water well near the Missouri River.

Regulated Water Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
100,000 & Up	1	306,000	69.0
50,000 - 99,999	1	95,599	21.6
10,000 - 49,999	1	10,800	2.4
5,000 - 9,999	1	6,771	1.5
2,500 - 4,999	1	4,679	1.0
1,500 - 2,499	2	4,704	1.0
750 - 1,499	5	4,928	1.1
500 - 749	5	3,004	0.7
200 - 499	9	2,607	0.6
100 - 199	22	3,294	0.8
Less Than 100	23	1,193	0.3
TOTALS	71	443,579	100